

Message Text

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GENEVA FOR MTN

E.O. 11652: GDS

TAGS: ETRD, BR

SUBJECT: U.S.-BRAZIL CONSULTATIVE SUB-GROUP ON TRADE
MEETINGS, MARCH 11-12

1. MEETING OF TRADE CONSULTATIVE SUB-GROUP MAINTAINED THE
ATMOSPHERE OF GOOD FEELING ENGENDERED BY THE SECRETARY'S
VISIT. FOLLOWING IS A PRELIMINARY, UNCLEARED ACCOUNT OF
THE MEETING AND THE BILATERAL DISCUSSIONS HELD WITH
TREASURY, STR AND USDA.

2. EXPORT SUBSIDY/COUNTRVALING DUTY PROBLEMS:
IN THE FORMAL SUB-GROUP SESSION, THERE WAS A USEFUL
EXCHANGE ON THE REQUIREMENTS AND FLEXIBILITY UNDER U.S.
AND GOB LAW IN RESPECT TO THIS ISSUE AS WELL AS SOME TENTA-
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TIVE EXPLORATION OF POSSIBLE APPROACHES TO THE OUTCOME OF

THE SHOE ESCAPE CLAUSE CASE AND LINKAGE TO THE REQUIREMENT OF SECTION 331 REGARDING A WAIVER OF THE COUNTERVAILING DUTIES. DORNELLES NOTED THAT GOB HAD FLEXIBILITY IN APPLYING ITS EXPORT INCENTIVE SYSTEM IN REGARD TO PRODUCTS COVERED AND LEVEL OF SUBSIDY. THE BRAZILIAN SIDE WAS INVITED TO PUT FORTH IDEAS ON HOW, UNDER THE LIMITS SET BY U.S. LAW, THE U.S. MIGHT EXERCISE ITS DISCRETION FOR TEMPORARY WAIVERS ON CVD CASES. IN SUBSEQUENT MEETING WITH MACDONALD AND SUCHMAN, DORNELLES -- SOMEWHAT

SURPRISINGLY -- TOOK THE POSITION THAT EFFORT TO FIND SOLUTION TO EXPORT SUBSIDY/COUNTERVAILING DUTY PROBLEM SHOULD BE CONCENTRATED ON SHOES ONLY AND THAT BRAZIL COULD QUOTE HANDLE UNQUOTE OTHER COUNTERVAILING DUTY CASES. HE ALSO REPORTEDLY SAID THAT MAJOR REFORMS OF BRAZILIAN EXPORT SUBSIDY SYSTEM COULD NOT BE UNDERTAKEN BEFORE 1977. IN CONTRAST TO BROAD SIMONSEN APPROACH, DORNELLES THUS HAS PROPOSED TO NARROW SEARCH FOR AN INTERIM SOLUTION. ASSISTANT

SECRETARY PARSKY MET WITH BRAZILIAN CHARGE AND SERGIO ROUANET ON MARCH 12 TO CONVEY TREASURY'S INTEREST IN EXPLORING SOLUTION TO EXPORT SUBSIDY/COUNTERVAILING DUTY PROBLEM.

3. POSSIBLE SECTION 301 ACTION ON SOYBEAN OIL:IN THE FORMAL TALKS U.S. SIDE GAVE A CANDID EXPLANATION OF SECTION 301 AND NOTED POSSIBILITY OF U.S. TRADE COMPLAINT IN NEAR FUTURE CONCERNING SUBSIDIZED BRAZILIAN EXPORTS TO THIRD COUNTRY MARKETS. IN HIS RESPONSE, RUBENS VALENTINI, MINISTER OF AGRICULTURE'S ADVISOR, LIMITED HIMSELF TO NOTING EC PRACTICES. HOWEVER, IN SUBSEQUENT BILATERAL DISCUSSION AT USDA, VALENTINI SAID THAT IPI-ICM TAX CREDITS ON SOYBEAN OIL EXPORTS WERE BEING PHASED DOWN STARTING APRIL 1, AND WOULD BE TERMINATED AT END OF MAY. FURTHER, HE BELIEVES CORPORATE INCOME TAX EXEMPTION NOT APPLICABLE TO EXPORTS OF THAT PRODUCT:HE UNDERTOOK TO CONFIRM SAME THROUGH EMBASSY BRASILIA. IF ACCURATE, THIS INFORMATION MAY DISSUADE U.S. SOYBEAN PROCESSORS FROM FILING SECTION 301 COMPLAINT.

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4. MTN. FORMAL SUB-GROUP DISCUSSION MTN, ALTHOUGH USEFUL, WERE LESS FRANK THAN OTHER PARTS OF CONSULTATIONS; PERHAPS DUE TO PRESENCE OF CONGRESSIONAL STAFF QUOTE OBSERVERS UNQUOTE WHO STR AGREED TO HAVE ATTEND DESPITE OUR OBJECTIONS. HOWEVER, IN A PRIVATE MEETING BETWEEN AMBASSADOR YEUTTER AND ROUANET STATUS OF MTN WAS DISCUSSED MORE CANDIDLY. YEUTTER REPORTED THAT THE USG WOULD SHORTLY REACH A DECISION ON TARIFF-CUTTING FORMULA

COMBINING LINEAR CUT AND SOME HARMONIZATION. YEUTTER AND ROUANET ALSO DISCUSSED HOW SPECIAL AND DIFFERENTIAL TREATMENT COULD BE INCORPORATED INTO U.S. NEGOTIATING APPROACH ON TARIFFS, ESSENTIALLY GOING OVER THE GROUND COVERED IN LAST OCTOBER'S DISCUSSIONS. IN OTHER AREAS, ROUANET REGISTERED CONSIDERABLE CONCERN THAT PARTS OF TOKYO DECLARATION ENVISAGING DIFFERENTIAL (AS AGAINST SPECIAL) TREATMENT FOR LDC'S WOULD BE LOST. IN THIS CONNECTION, ROUANET NOTED BRAZIL'S DISAPPOINTMENT WITH U.S. APPROACH ON TROPICAL PRODUCTS WHICH DID NOT PROVIDE

DIFFERENTIAL TREATMENT.

5. BRAZILIAN GATT REFORM PROPOSAL. BRAZILIANS REITERATED THEIR BELIEF THAT A SPECIAL MTN GROUP SHOULD BE ESTABLISHED TO EXAMINE THE GATT AND RELATED INSTRUMENTS. THEY WERE CAREFUL TO POINT OUT, HOWEVER, THAT THEY DID NOT ENVISAGE THAT THIS MTN GROUP WOULD IMPINGE ON WORK OF OTHER MTN GROUPS. RATHER, IT WOULD FOCUS ON RESIDUAL ISSUES NOT BEING TREATED ELSEWHERE IN THE MTN. U.S. EXPRESSED APPREHENSION THAT REGARDLESS OF INTENTIONS, SPECIAL GATT REFORM GROUPS COULD INTERFERE WITH THE WORK OF OTHER GROUPS AND, MORE IMPORTANT, MIGHT SEEK TO REOPEN ISSUES ALREADY NEGOTIATED BY OTHER GROUPS. FURTHERMORE, BRAZILIANS ARE PROPOSING THAT THE GROUP REVIEW ALL GATT ARTICLES NOT UNDER CONSIDERATION IN OTHER GROUPS. IT IS HIGHLY UNLIKELY THAT THE GROUP COULD COMPLETE SUCH A TASK IN THE TIME AVAILABLE FOR THE MTN. RESULTS ACHIEVED ELSEWHERE IN THE MTN COULD THEREBY BE HELD HOSTAGE TO COMPLETION OF THE WORK OF THE GROUP.

6.FOLLOW-UP. PREPARATORY TO SECRETARY SIMON'S VISIT, ASSISTANT SECRETARY PARSKY IS PLANNING TO VISIT BRASILIA
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IN LATE APRIL TO DISCUSS AGENDA FOR SIMON VISIT. PARSKY WOULD PLAN TO BRING PETER SUCHMAN TO WORK OUT UNDERSTANDING ON EXPORT SUBSIDY/COUNTERVAILING DUTY PROBLEM. WE HAVE INDICATED THAT VISIT WOULD BE WELCOME, HAVE SUGGESTED THAT TREASURY TEAM, AS AN OPENING POSITION, MAY WISH TO CONSIDER FURTHER EFFORT TO PROBE SIMONSEN'S WILLINGNESS TO REACH UNDERSTANDING ON EXPORT SUBSIDIES BROADER THAN SHOES, PARTICULARLY SINCE SECTION 301 COMPLAINT ON SUBSIDIZED SOYBEAN OIL EXPORTS MAY HAVE BEEN FILED BY TIME OF PARSKY VISIT UNLESS GOB IN FACT REMOVES SUBSIDY.

7. TREASURY IS CONTEMPLATING SIMON-SIMONSEN LETTER AS PREPARATIONS FOR VISIT GET UNDER WAY. AGENDA FOR THE VISIT WOULD INCLUDE BILATERAL TRADE ISSUES, U.S.

TECHNICAL ASSISTANCE, POSSIBLE USG ASSISTANCE IN ENCOURAGING U.S. INVESTMENT, POSSIBILITIES OF A U.S. ROLE IN FACILITATING THE INFLUX OF MIDDLE EAST CAPITAL UNDER APPROPRIATE TRILATERAL ARRANGEMENTS, AND THE BRAZILIAN BALANCE OF PAYMENTS. WHILE DATES FOR VISIT NOT YET FIRM, SECRETARY SIMON MIGHT ARRIVE IN BRAZIL MAY 7 OR 8. WE SUGGESTED THAT IF SECRETARY SIMON ARRIVES IN BRAZIL DURING WEEKEND, THIS MIGHT BEST BE SPENT IN RIO WHERE HE WOULD BE ABLE TO MEET REPRESENTATIVE GROUP OF BRAZILIANS SOCIALLY. OFFICIAL DISCUSSIONS COULD THEN BE HELD IN

BRASILIA MAY 10-11, FOLLOWED BY ONE-DAY VISIT TO SAO PAULO MAY 12, INCLUDING MAJOR ADDRESS TO U.S. SAO PAULO CHAMBER OF COMMERCE. WE ALSO UNDERSTAND THAT SIMONSEN HAS INVITED SECRETARY SIMON FOR CROCODILE HUNT IN AMAZON WHICH COULD BE SCHEDULED FOR THURSDAY, MAY 13, WITH SECRETARY SIMON AND HIS PARTY DEPARTING BRAZIL FROM MANAUS MAY 14. FOREGOING SCHEDULE STILL VERY TENTATIVE AND SUBJECT TO AMBASSADOR'S VIEWS AND COMMENTS. IF SECRETARY SIMON DECIDES TO VISIT OTHER LATIN AMERICAN COUNTRY, BRAZIL PORTION OF TRIP WOULD HAVE TO BE CURTAILED BY ONE OR TWO DAYS, POSSIBLY THROUGH ELIMINATION OF SAO PAULO STOP. EMBASSY'S VIEWS WOULD BE USEFUL AND WELCOME.

8. COMMENT: IN SUMMARY, WE BELIEVE MEETINGS OF TRADE
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CONSULTATIVE SUB-GROUP AND THE VARIOUS BILATERAL DISCUSSIONS HAVE BEEN VERY USEFUL IN MAINTAINING THE MOMENTUM CREATED BY THE SECRETARY'S VISIT AND MOVING FORWARD THE DIALOGUE BEGUN IN THE OCTOBER MEETING OF THE CONSULTATIVE SUB-GROUP ON TRADE. BOTH SIDES REAFFIRMED THEIR WILLINGNESS TO WORK TOGETHER IN MANAGING THE BILATERAL TRADE PROBLEMS. ALTHOUGH LONG-STANDING DIFFERENCES IN APPROACH ON THE MTN WERE REAFFIRMED, THERE WAS A SENSE OF MOVEMENT AND FLEXIBILITY ON BOTH SIDES THROUGHOUT THE DISCUSSIONS.

9. DETAILED REPORT ON THE MEETINGS NOW IN CLEARANCE AND WILL BE TRANSMITTED AS SOON AS POSSIBLE. KISSINGER

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